

**AGENDA FOR THE
PENSION REFORM COMMITTEE
MEETING OF
June 8, 2004
3:00 PM – 6:00 PM Meeting**

**401 B Street
Conference Room, 4th Floor**

MINUTES

**THE REGULAR MEETINGS OF THE PENSION REFORM COMMITTEE ARE
SCHEDULED FOR EVERY TUESDAY AT 3:00 PM AT 401 B STREET, 4TH FLOOR**

THE OPINIONS AND VIEWS OF THE COMMITTEE OR ITS MEMBERS, AND PRESENTATIONS MADE AND DOCUMENTS PROVIDED TO THE COMMITTEE OR ITS MEMBERS, MAY CONTAIN PROJECTIONS, FORECASTS, ASSUMPTIONS, EXPRESSIONS OF OPINIONS, ESTIMATES AND OTHER BACKWARD-LOOKING RECONSTRUCTIONS OR FORWARD-LOOKING STATEMENTS, ARE NOT TO BE CONSTRUED AS REPRESENTATIONS OF FACT, AND ARE QUALIFIED IN THEIR ENTIRETY BY THIS CAUTIONARY STATEMENT. ONLY STATEMENTS MADE BY THE CITY IN AN OFFICIAL RELEASE OR SUBSEQUENT NOTICE OR ANNUAL REPORT, PUBLISHED IN A FINANCIAL NEWSPAPER OF GENERAL CIRCULATION AND/OR FILED WITH THE MSRB OR THE NRMSIRs ARE AUTHORIZED BY THE CITY. THE CITY SHALL NOT BE RESPONSIBLE FOR THE ACCURACY, COMPLETENESS OR FAIRNESS OF UNAUTHORIZED STATEMENTS.

Item 1: Call to Order

Item 2: Roll Call

<u>Members Present</u>	<u>Members Absent</u>	<u>Staff Present</u>
April Boling		Patricia Frazier
Robert Butterfield		Chris Morris
Dick Vortmann		Larry Grissom, SDCERS Staff
Judith Italiano		Paul Barnett, SDCERS Staff
William Sheffler		Pam Holmberg
Stanley Elmore		Mary Braunwarth
Kathleen Walsh-Rotto		
Tim Considine		
Steve Austin (via phone)		

Item 3: Approval of Minutes

There was a motion for approval of the minutes for the June 1, 2004 Pension Reform Committee (Committee) meeting from Mr. Considine. The motion was seconded by Mr. Elmore and passed unanimously.

Item 4: Discussion on Actuarial Study

Mr. Roeder reported that he would have the final pieces of the actuarial study completed before next week's meeting. Ms. Boling reminded him that the Committee is also requesting that he provide the cost of individual plan design components they are recommending as well as the overall cost of the recommendations.

Item 5: Ballot Measure Proposals

Mr. Morris distributed a memo outlining the proposed Charter changes/amendments (see attached). Mr. Morris discussed the proposed changes and amendments and asked the Committee to review and refine the language. The City Attorney's Office will prepare the final language as directed by the City Council Rules Committee. The Committee reviewed the language regarding the composition of the Board and disability retirement and agreed that it was consistent with the motions previously passed. Mr. Morris clarified that the disability retirement changes would require an amendment to rule 15.6 of the Retirement Board rules. Sheila Jacobs, counsel to the Retirement Board, will draft up the amendment and return it to the Committee for comments. Ms. Boling said she would like the rule change to be a part of the Committee's final report.

The Committee reviewed the language regarding amortization schedules. After discussion and comment, there was a motion from Mr. Considine to change the language to read: "The Retirement Board has exclusive control of the administration and investment of the fund. However, when setting and establishing amortization schedules for the funding of the unfunded accrued actuarial liability, the Board shall place the cost of the past service liability associated with a new retirement benefit increase on no less than a fixed, straight-line, five year amortization schedule. Similarly, the Board shall place the cost associated with net actuarial gains and losses on no less than a fixed five year and no more than a fifteen year schedule." The motion was seconded by Mr. Butterfield and passed unanimously.

Ms. Boling asked Mr. Roeder to help clarify Charter section 143 regarding the split of normal retirement allowance. She asked why the normal cost is not split 50/50 between the City and employees. Mr. Roeder explained that, while the split of the cost is about equal, the methodologies used to calculate normal cost vary. In addition, employee contribution rates are dependent on entry age and do not include factors such as disability rates. Mr. Roeder suggested that the rate could be closer to 50/50 if it was recalibrated every three or four years when the experience study is done. Mr. Boling recommended that this suggestion be included in the final report.

Item 6: Discussion on Final Report

Ms. Boling asked Steve Austin if the Committee needed to make any recommendations related Sarbanes-Oxley. Mr. Austin said that he believes the recommendations being made are in the spirit of Sarbanes-Oxley, therefore, no additional recommendations need to be made.

Mr. Butterfield made a motion that Councilmembers cannot benefit from any retirement benefit increases voted on during the time of their term of office. The motion was seconded by Mr. Considine and the Committee discussed it. The motion failed with Mr. Austin, Ms. Boling, Mr.

Butterfield and Mr. Considine in favor and Mr. Elmore, Ms. Italiano, Mr. Sheffler and Ms. Walsh-Rotto opposed.

Mr. Sheffler made a motion related to a change in retirement age for members. The proposed changes are: General Members will be eligible for retirement at age 62 with 10 years of service. General Members will be eligible for an actuarially reduced retirement allowance at age 55 with 20 years of service. Safety Members will be eligible for retirement at age 57 with 10 years of service. Safety Members will be eligible for an actuarially reduced retirement allowance at age 52 with 20 years of service. Legislative Members will be eligible for retirement at 62 with 4 years of service. Legislative Members will be eligible for an actuarially reduced retirement allowance at age 55 with 8 years of creditable service. The motion was seconded by Mr. Considine. The Committee discussed the motion. The motion passed with Mr. Austin, Ms. Boling, Mr. Butterfield, Mr. Considine, Mr. Sheffler and Mr. Vortmann in favor and Mr. Elmore and Ms. Italiano opposed. Ms. Walsh-Rotto abstained.

Mr. Sheffler made a motion that the service retirement benefit be credited at 2% of final average compensation per year of credible service for all SDCERS members, including General, Safety and Legislative. The motion was seconded by Mr. Considine. The Committee discussed the motion and why the credit rates were presently at different levels between the classes. It was suggested that a 20% reduction across the board would be more equitable. Mr. Sheffler amended his motion for service to be credited at 2.0% for General, 2.4% for Safety and 2.8% for Legislative. The motion was seconded by Mr. Considine. The motion passed with Mr. Austin, Ms. Boling, Mr. Butterfield, Mr. Considine, Mr. Sheffler and Mr. Vortmann in favor and Mr. Elmore, Ms. Italiano, and Ms. Walsh-Rotto opposed.

The Committee discussed if they had any recommendations on the Cost of Living Allowance (COLA). Mr. Considine said he wanted to know the overall impact of the plan changes being recommended before recommending a change to the COLA. No action was taken on this issue.

Mr. Vortmann brought forward three suggestions for the Committee's consideration. The first was to change the disability requirement definition to the Social Security system definition of total disability. He also recommended that disability pension payments be reduced if and when compensation from other employment, plus any worker's compensation benefits, plus the disability payments exceeds the disabled employee's prior salary level at the City when the employee became disabled. The disabled employee must provide quarterly income declaration together with annual federal income tax returns to CERS for review. His last recommendation was that the disabled person must submit an annual filing of disability affidavit and submit, at the request of CERS, to periodic confirming physical examination. Failing to sustain a position of a qualifying disability, disability payments will cease and the employee will be offered his/her previous position with the City. The Committee discussed Mr. Vortmann's suggestions. Mr. Vortmann made a motion that the City change the disability requirement definition to the Social Security definition of total disability for all employees. The motion was seconded by Mr. Considine. The motion failed with Mr. Considine, Mr. Sheffler and Mr. Vortmann in favor and Ms. Boling, Mr. Butterfield and Mr. Elmore opposed. Mr. Butterfield made a motion that the City change the disability requirement definition to the Social Security system definition of total disability for General and Legislative members only. The motion was seconded by Mr. Considine. The motion passed with Ms. Boling, Mr. Butterfield, Mr. Considine, Mr. Sheffler and Mr. Vortmann in favor and Mr. Elmore opposed. Mr. Considine made a motion that the Committee recommend the disability requirement definition for Safety members be studied.

The motion was seconded by Mr. Sheffler and passed with Ms. Boling, Mr. Butterfield, Mr. Considine, Mr. Sheffler and Mr. Vortmann in favor and Mr. Elmore opposed.

Item 7: New Business

There was no new business.

Item 8: Comments by Committee Chairperson

Ms. Boling suggested the next meeting be used to discuss retiree health insurance and other pension benefits. Ms. Boling will not be in attendance for the June 15 meeting. Mr. Considine will chair the meeting.

Item 9: Comments by Committee Members

Mr. Butterfield commented on an article he had seen discussing pension spiking. He asked Mr. Grissom what kind of safeguards the City had to insure people weren't given raises to boost their high one year or from switching from part time to full time to increase their retirement. Mr. Grissom said there are safeguards in the System to prevent pension spiking. Retirement Administration receives exception reports on raises and can investigate any suspicious activities. Part time employees only earn retirement at part time rates. Switching to full time only increases their benefits for the years they work full time.

Mr. Vortmann further clarified the language for the Charter change regarding the composition of the Retirement Board. He would like the appointees to have both an applicable college degree or related technical certification and 15 years of experience. Mr. Morris will make that change.

Item 10: Non-Agenda Public Comment

Jim Gleason commented to the Committee. He requested that the Committee get rid of the waterfall. He believes that given the unfunded status of the System, there aren't, and will never be, surplus undistributed earnings. However, the liabilities do need to be met and they should be folded into the system and actuarially funded. He said he is also concerned about the way retiree health care is paid. Proposition D was passed by the voters and changed the City Charter permitting the shift of this costly item from the City's General Fund, paid by all tax payers, to the City's Retirement System, paid for by the Retirement System's investment earnings and assets. That has not occurred. He suggests health care be given a priority position in the waterfall ahead of the contribution accounts.

Item 11: Adjournment

The meeting was adjourned at 6:25 PM.

The next meeting will be on Tuesday, June 15, 2004 at **3:00** PM at the same location.

Office of
The City Attorney
City of San Diego

MEMORANDUM

DATE: June 7, 2004
TO: Pension Reform Committee
FROM: Christopher S. Morris, Head Deputy City Attorney
SUBJECT: Proposed Charter Changes/Amendments

THIS DOCUMENT MAY CONTAIN PROJECTIONS, FORECASTS, ASSUMPTIONS, EXPRESSIONS OF OPINION, ESTIMATES AND OTHER BACKWARD-LOOKING RECONSTRUCTIONS OR FORWARD LOOKING STATEMENTS, ARE NOT TO BE CONSTRUED AS REPRESENTATIONS OF FACT, AND ARE QUALIFIED IN THEIR ENTIRETY BY THIS CAUTIONARY STATEMENT. ONLY STATEMENTS MADE BY THE CITY IN AN OFFICIAL RELEASE OR SUBSEQUENT NOTICE OR ANNUAL REPORT, PUBLISHED IN A FINANCIAL NEWSPAPER OF GENERAL CIRCULATION AND/OR FILED WITH THE MSRB OR THE NSMISIRs ARE AUTHORIZED BY THE CITY. THE CITY SHALL NOT BE RESPONSIBLE FOR THE ACCURACY, COMPLETENESS OR FAIRNESS OF UNAUTHORIZED STATEMENTS.

The purpose of this memorandum is to provide further details to the motions that have been passed by this Committee relative to proposed changes and amendments to the San Diego City Charter. It is my intent to provide a forum for further input and direction from the Committee on these items, which have already been voted upon in concept, prior to bringing these items forward to the City Council. Following further refinement by the Committee, the City Attorney's Office will prepare the actual language as directed by the San Diego City Council Rules Committee.

1. The Composition of the Board.

The City Employee's Retirement System's Board shall be comprised of seven members appointed by a majority of the San Diego City Council. They will serve with staggered terms of four years each, with a two consecutive term maximum. Such appointees will have the professional qualifications of a college degree in either finance, economics, business or other relevant field of study. Or, in the alternative, an appointee shall have 15 years experience in pension administration, pension actuarial practice, investment management (including real estate), banking, or certified public accounting along with the relevant professional certifications. Such appointees will be U.S. citizens and residents of the City of San Diego but cannot be City employees, participants (direct or indirectly through a direct family member) of the SDCERS, nor a union representative of employees or participants. Appointees shall not have any other personal interests which would be, or create the appearance of, a conflict of interest with the duties of a Trustee.

2. Disability Retirement

With respect to applications for disability retirement, the final decision will be made by a qualified and unbiased hearing officer selected by, and under contract with, the Retirement Board. The Retirement Board may establish rules setting forth the

qualifications and selection procedure necessary to appoint qualified and unbiased hearing officers.

IN ORDER TO IMPLEMENT THIS CHANGE, RULE 15.6 OF THE BOARD RULES WILL HAVE TO BE AMENDED AS OUTLINED IN THE ATTACHMENT.

3. Amortization Schedules.

The Retirement Board has exclusive control of the administration and investment of the fund. However, when setting and establishing amortization schedules for the unfunded accrued actuarial liability, the Board shall place the cost of the past service liability associated with a new benefit increase on no less than a fixed, straight-line, five year amortization schedule. Similarly, the Board shall place the cost associated with actuarial gains and losses and investment gains and losses on no less than a rolling/fixed fifteen year schedule.

CSM:smf

THIS DOCUMENT MAY CONTAIN PROJECTIONS, FORECASTS, ASSUMPTIONS, EXPRESSIONS OF OPINION, ESTIMATES AND OTHER BACKWARD-LOOKING RECONSTRUCTIONS OR FORWARD LOOKING STATEMENTS, ARE NOT TO BE CONSTRUED AS REPRESENTATIONS OF FACT, AND ARE QUALIFIED IN THEIR ENTIRETY BY THIS CAUTIONARY STATEMENT. ONLY STATEMENTS MADE BY THE CITY IN AN OFFICIAL RELEASE OR SUBSEQUENT NOTICE OR ANNUAL REPORT, PUBLISHED IN A FINANCIAL NEWSPAPER OF GENERAL CIRCULATION AND/OR FILED WITH THE MSRB OR THE NSMSIRs ARE AUTHORIZED BY THE CITY. THE CITY SHALL NOT BE RESPONSIBLE FOR THE ACCURACY, COMPLETENESS OR FAIRNESS OF UNAUTHORIZED STATEMENTS.